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November 17, 2008

AGENDA ITEM 4

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

I. SUBJECT: Results of the June 30, 2007 Actuarial Valuations for Public Agencies

II. PROGRAM: Retirement

III. RECOMMENDATION: Information item.

IV. ANALYSIS:

CalPERS' actuaries completed the June 30, 2007 Public Agency actuarial valuations on schedule shortly before the end of October 2008. These valuations set the employer contribution rates for fiscal year 2009-2010.

The valuations reflect the impact of the investment return for fiscal year 2006-2007, which was approximately 19.1%.

The rate smoothing methodology adopted by the Board in April 2005 continues to substantially dampen the impact of the turbulent market. Most of the investment gains for fiscal year 2006-2007 were set aside for the future to be able to keep employer rates stable. In order to have the desired smoothing impact, the new smoothing methods must be applied both when returns are greater than expected and when they are less than expected.

Overall, the average employer contribution rates for 2009-2010 are 12.7% of payroll for miscellaneous plans and 24.7% of payroll for safety plans

What follows are the highlights of the changes in employer rates between fiscal years 2008-09 and 2009-010.

- 49% of the plans (990 plans) experienced a decrease in their rate
- 49% of the plans (987 plans) experienced an increase in their rate
- 2% of the plans (35 plans) experienced no change in rate
- 37 plans have a zero rate

The distribution of the changes in employer rates is shown in the table below. Once again, as it was meant to do, the new rate smoothing methodology substantially dampened the impact of actuarial gains and losses and this can be seen by the fact that 74% of the plans are experiencing changes in rates of less than 1%.

Distribution of Changes in Employer Rates

Change in Employer Rate as a Percentage of Payroll	Number of Plans	Percent of All Plans*
Decrease more than 3%	59	3%
Decrease between 1% and 3%	180	9%
Decrease 1% to Increase 1%	1485	74%
Increase 1% to 3%	189	9%
Increase more than 3%	99	5%
Total	2,012	100%

Many of the increases in rates were the results of plans amending their plan provisions. Overall, 2% of the plans (40 plans) experienced an increase in rate between 1% and 3% as a result of benefit improvements and 3% of the plans (56 plans) an increase in rate of more than 3% of payroll as a result of benefit improvements.

The following tables show the distribution of the 2008-2009 and the 2009-2010 contribution rates for miscellaneous and safety plans.

* percentages may not add up to 100% due to rounding

2008-2009 Rates

	Miscellaneous Plans		Safety Plans	
	Number of Plans	**Percent of Plans***	**Number of Plans**	**Percent of Plans***
0%	40	3%	2	0%
0-10%	387	28%	19	3%
10-20%	818	60%	148	24%
20-30%	110	8%	284	47%
30-40%	13	1%	116	19%
40+%	1	0%	36	6%
	1,369	100%	605	100%

2009-2010 Rates

	Miscellaneous Plans		Safety Plans	
	Number of Plans	**Percent of Plans***	**Number of Plans**	**Percent of Plans***
0%	36	3%	1	0%
0-10%	401	29%	14	2%
10-20%	824	59%	149	24%
20-30%	122	9%	296	48%
30-40%	13	1%	121	20%
40+%	1	0%	34	6%
	1,397	100%	615	100%

Estimate of 2010-2011 Employer Contribution Rates

As in prior years, the actuarial valuation reports include an estimate of the employer contribution rates for the next fiscal year, in this case 2010-2011. The estimates reflect the impact of an estimated -2.5% investment return for fiscal year 2007-2008. However, the asset smoothing method reserved the majority of the asset gains experienced in prior years as an offset against potential future losses. We are estimating that the average 2010-2011 miscellaneous and safety employer contribution rates will be lower at 12.6% of payroll for miscellaneous plans and 24.4% of payroll for safety plans

* percentages may not add up to 100% due to rounding

The following tables show the distribution of the ESTIMATED 2010-2011 contribution rates for miscellaneous and safety plans.

ESTIMATED 2010-2011 Rates

	Miscellaneous		Safety	
	Number of Plans	**Percent of Plans***	**Number of Plans**	**Percent of Plans***
0%	45	3%	2	0%
0-10%	407	29%	11	2%
10-20%	810	58%	166	27%
20-30%	120	9%	292	47%
30-40%	14	1%	111	18%
40+%	1	0%	33	5%
	1,397	100%	615	100%

As always, member contributions (whether paid by the employer or the employee) are in addition to the above rates unless the plan is superfunded.

Funded Status

As a result of the good investment experience, Public Agency plans are better funded as of the June 30, 2007 valuation date than they were a year ago. Miscellaneous plans tend to be better funded than safety plans.

We are monitoring the funded status of Public Agency plans using the market value of assets to ensure that the new rate stabilization methods do not impair the security of benefits. The funded ratio is equal to the market value of assets divided by the actuarial accrued liability, expressed as a percentage. The funded status on an actuarial value of asset basis is used for rate setting only and is not a true measure of the plan's ability to pay benefits.

The table below shows the average funded ratios on a market value of assets basis for all miscellaneous and safety plans.

Funded Ratios on a Market Value Basis

	Miscellaneous Plans	**Safety Plans**	**All Plans**
Average Funded Ratio on June 30, 2005	91.9%	87.6%	90.2%
Average Funded Ratio on June 30, 2006	93.8%	91.0%	92.7%
Average Funded Ratio on June 30, 2007	103.1%	100.3%	102.0%

* percentages may not add up to 100% due to rounding

As a result of the estimated -2.5% investment return for fiscal year 2007-2008, the average funded ratio on June 30, 2008 is estimated to drop back near the June 30, 2006 levels for both the miscellaneous and the safety plans.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic or Annual Plans but is part of the regular and ongoing workload of the Actuarial & Employer Services Division.

VI. RESULTS/COSTS:

See Above.

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